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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 9329
INFO RUEHBJ/AMEMBASSY BEIJING 5282
RUEHLO/AMEMBASSY LONDON 1667
RUEHTC/AMEMBASSY THE HAGUE 1049
RUEHFK/AMCONSUL FUKUOKA 9281
RUEHNH/AMCONSUL NAHA 1764
RUEHOK/AMCONSUL OSAKA KOBE 2719
RUEHKSO/AMCONSUL SAPPORO 0305
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C O R R E C T E D C O P Y //

E.O. 12958: DECL: 12/21/2016

TAGS: PGOV PREL ENRG ECON JA RU

SUBJECT: MITSUI VIEWS POSITIVELY THE
TRANSFER OF SAKHALIN 2 CONTROL TO GAZPROM

REF: A. TOKYO 6163

1B. TOKYO 6578

Classified By: Joseph R. Donovan for reasons 1.4 (b,d).

11. (SBU) Mitsui & Co., one of two Japanese shareholders in Russia's problem-plagued Sakhalin 2 project, continues to insist that the now concluded deal to transfer a majority share in the project to Russia's Gazprom is a positive move (reflets). Mitsui & Co. Energy Business Unit's Planning Department General Manager Ken Yamaguchi told Econoff that Mitsui & Co. has all along welcomed the addition of a Russian company into the project. He said that the inclusion of Gazprom brings stability to the project and added that it is normal for projects such as Sakhalin 2 to include a local company. Yamaguchi also declared that Mitsui & Co. is confident the contracts already signed by Japanese utility companies for purchase of almost 60 percent of the project's liquefied natural gas (LNG) will be honored by Gazprom. He confirmed Japanese media reports that the agreement handing Russia's Gazprom a majority share in Sakhalin 2 requires Shell to transfer 30 percent of its stake to Gazprom while Mitsui and Mitsubishi will each transfer 10 percent; an additional one share will be included to give Gazprom a total of just over 50 percent.

12. (SBU) Ministry of Economy, Trade and Industry Agency for Natural Resources and Energy's Petroleum and Natural Gas Division Director Shin Hosaka told Econoff that the GOJ was not 100 percent satisfied with the agreement but because Mitsui & Co. and Mitsubishi had accepted and signed it, the GOJ would also accept it. The major GOJ concern is that existing contracts with Japanese utility companies for LNG delivery be honored. The contract signed with Gazprom includes language guaranteeing that they will be. Hosaka said he will continue to closely monitor the agreement to ensure that the promise is kept.

13. (C) Comment: Despite concerns that Russia engaged in strong-arm tactics to secure this majority stake in Sakhalin 2, Mitsui & Co. seems willing to look at the bright side. The company has not wavered in its position that Gazprom's participation will be a good thing overall. More important

to Mitsui & Co. than the size of its share in Sakhalin 2 is that the project honor the already signed contracts with Japanese utilities to purchase the project's natural gas, a condition which at this point appears likely. The inclusion of Gazprom also probably indicates that many of the project's current problems, especially the pursuit of environmental violations, may quietly go away. In addition, Mitsui has substantially reduced its risk in a project whose costs have more than doubled. Finally, if press reporting is accurate, then the framework for the production-sharing agreement (PSA) -- which gives foreign investors preferential treatment -- will remain in place. We will continue to follow and report on this issue.

DONOVAN